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AN  
Essay  
ON  
THE GENERAL PRINCIPLES  
AND  
PRESENT PRACTICE  
OF  
BANKING,  
IN  
England and Scotland ;  
WITH  
OBSERVATIONS UPON THE JUSTICE AND POLICY  
OF AN  
IMMEDIATE ALTERATION  
IN  
The Charter of the Bank of England,  
AND THE  
MEASURES TO BE PURSUED IN ORDER TO EFFECT IT.

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BY T. JOPLIN.

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SECOND EDITION.

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## Dedication.



TO NONE CAN IT BE MORE PROPER TO DEDICATE A  
WORK OF ANY KIND THAN TO THOSE WHOM IT PRO-  
POSES TO SERVE,—THEREFORE,

TO THE MANUFACTURERS, MERCHANTS, AND TRADES-  
MEN, OF ENGLAND AND IRELAND, THIS ESSAY IS RE-  
SPECTFULLY DEDICATED BY

THE AUTHOR.



## PREFACE.

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THE following Essay, though more immediately addressed to the Gentlemen, Merchants, and Others, of Newcastle upon Tyne, Shields, Durham, and Sunderland, and their respective neighbourhoods, is equally applicable to every part of England; and it is to be hoped, that the steps recommended to be pursued, in order to procure an alteration in the Charter of the Bank of England, or similar ones, will be immediately taken, wherever it may be intended to establish Banks on the principles recommended. A simultaneous movement in different quarters, and a general combination in favour of the object proposed, would at once render nugatory any opposition from those who may expect to lose by it.

An effectual opposition, however, in the present state of the public mind, need not be dreaded. The absolute necessity of a change in our Banking System

has long been felt, and is quite obvious; but the present Bankers have great influence in Parliament, and might succeed, perhaps, in getting some half-measure adopted, if the public were to shew the least indifference or want of determination on the subject.

A perfect freedom with respect to the System of Banking which it may choose to adopt, more especially since this can be attained without injuring the Bank of England, the country ought to look for, and insist upon. Were the clause in its Charter, for instance, expunged with respect to Country Banks only, as has been done in Ireland, the same defective and insecure principle of Banking would be continued in the metropolis, and the System would still be bad where it ought to be best.

In London, it is requisite that more confidence should be placed in Bankers than in any other part of the kingdom. The circumstances of individuals cannot there be known as in the country, by the observation and report of their neighbours, hence they are obliged to make reference to their Bankers when it is necessary to verify their credit, who can or who will only know the credit they are entitled to, by the goodness of their accounts; and consequently those

who have any considerable credit to maintain, are always obliged to keep large balances in their hands. Country Bankers are under the necessity of doing the same, in order to meet the bills upon London, which, in the way of their business they have to draw. A great number of noblemen and country gentlemen of large property, also keep their accounts with them, which together with the great money transactions of foreign nations and governments now negociated in London, with all of which the Bankers have more or less to do, necessarily render the business of the London Banks immense.

The large balances which the merchants in London must keep with their Bankers, would not only with Public Companies be safe, but productive. At present they get nothing for them but their Banker's good word; while with such Companies they would also be allowed three or four per cent. interest.

The Plan recommended to the inhabitants of Newcastle, it will, perhaps, be best to pursue every where. The Deputies of a Company will always have more weight than individuals, however respectable. There can, also, it is trusted, be little doubt of success; and even should any serious opposition arise, by a pro-

per union there need be no great fear of overcoming it. The present System can never be supported against the united convictions of both government and the country.

AN

## Essay on Banking.

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**B**ANKS are by far the most important of all our commercial establishments. They are the fountains of our currency, the depositories of our capital, and at once the wheels and pillars of our trade. Business to any great extent could not be carried on without them; and all who have cash transactions of any kind are more or less dependent upon them: the landed proprietor finds them a convenient place of deposit for the ready money he possesses, or a useful resource in case of need; the capitalist, when he deems them safe, can lodge his money with them, receive interest for it, and have it ready when the chances of trade or changes of property may throw a desirable purchase in his way; merchants and traders of every denomination are enabled through them to send money

to, and receive it from the most distant places, to raise money when in want of it upon the Bills which they receive from their customers, to have those Bills presented for payment through a channel which in general secures their being duly honoured, and to deposit in them that money which any particular occasion, or the current demands of their business require ; while their Promissory Notes furnish the country with a useful and convenient circulating medium, and are in the hands of every one.

They are, therefore, intimately connected with every class of society. Every person who has any thing to do either with capital or money is interested in their stability. But the capitalist, merchant, manufacturer, and tradesman, and all who have large payments to make and receive, are continually under the necessity of trusting them in amounts, the loss of which might prove their utter ruin ; besides having daily to confide in them for the negotiation of Bills and advances of capital, which, in commercial transactions, are continually required.

On this account, a very deep interest is felt in the welfare of Banks. Nothing can in any way affect them without exciting the immediate attention of the public, and (if it involve their credit) without producing the greatest possible agitation and alarm. Thus when the slightest



apprehension is entertained respecting their solvency, however groundless it may sometimes prove, a run upon them immediately takes place. That is, hundreds of people immediately crowd the doors of the Banks, to demand payment of the Notes they hold, or to withdraw that money out of their hands, which they have deposited with them. This puts a stop to their usual Banking operations, and people in trade cannot receive that accommodation upon which they have relied, and upon which the regularity of their payments, and consequently their credit, depends: while, at the same time, no person can make remittances without placing their money in a state of peril, which they can only ascertain to be groundless, by waiting until it is over. All is, therefore, confusion; and the whole community is thrown into a state of apprehension and alarm, which may be better conceived than described.

Upon such occasions the greatest exertions are always made to allay the fears, and restore the confidence of the public; and very great risks are sometimes run in doing so. It is not unusual for the friends of a Bank so situated, to issue out Bills or Notices, pledging themselves to the public, to take its Notes in payment, to any amount. By which measure, should the Bank happen to stop, many of them would necessarily be ruined. Within these few

years, pledges of this kind were repeatedly issued in favour of the Durham, Stockton, and Sunderland Banks, all of whom ultimately failed ; but as they were not attended with any serious consequences, it is probable that the Banks did not stop payment immediately when they were issued, or perhaps the public may have overlooked the obligation contracted, and, from inadvertency, not have called upon the parties to redeem the pledge they had given.

We may, however, form some idea of the inconveniences in which the mercantile world are involved, when people are found wandering so far out of the track of ordinary prudence as to guarantee the security of establishments with whose affairs they have no intimate acquaintance, and whose insolvency would involve them in certain destruction.

Nothing, in fact, can affect the credit of the Banks without being immediately felt in a corresponding degree by the public ; and the actual stoppage of an extensive Banking concern deranges the whole frame of mercantile affairs, and carries confusion, misery, and ruin, into every department of society.

Great, however, as the inconveniences are, which the discredit of Banks, and consequent runs upon them occasion : and great as are the calamities by which their failures are uniformly

attended, they are, both in this country and Ireland, of very common occurrence.

By an account printed in the appendix to the Lords' Report upon the Bank resuming Cash Payments, it appears, that in the last twenty years, (that is, twenty years previous to 1818), no fewer than two hundred and thirty commissions of bankruptcy had been issued against Country Banks alone; an average of failures, proportioned to the total number of them, in all probability far exceeding that of any other regular business.

Sometimes, as if epidemically, the Banks of a whole district will fail together, as was the case a year or two ago, in the south of Ireland. That part of the country was, in consequence, involved in the greatest distress; its trade was materially injured, and a shock given to its prosperity, from which it is said not yet to have recovered. The same event happened also in the counties of Northumberland and Durham a few years back, when the Durham, Sunderland, and Stockton Banks failed within a short time of each other. This district, however, was better able to endure it, though the inconveniences generally felt were great, and the sufferers numerous; and, even in this town, to which the evil but partially extended, the want of confidence and the general state of alarm which

it produced, must be fresh in the recollection of every one.

Now, while England and Ireland are continually subject to disasters of this kind, it seems an extraordinary fact, that Scotland is totally free from them : the Scotch Banks rarely, if ever, either failing or losing money.

No one, I dare say, will, from this, imagine, that there is any thing different in the nature of their money transactions, or that trade is subject to fewer vicissitudes in Scotland than with us. I believe that trade is pretty much the same in both nations, or if there is any difference, that the merchants of Scotland are the more speculative, and less stable of the two. But the true cause of the difference is to be found in the nature of their respective Banking Establishments : the Scotch Banks being Joint Stock Companies, while the English Banks are private concerns.

The Scotch Banks consist of a great number of Proprietors or Stock Holders, who contribute, some to the extent of one hundred pounds, some of a thousand, and some of many thousands, with which they form a joint capital, establish a Bank, and entrust the management of it to a Committee chosen from their body, called a Court of Directors. The English Banks, on the contrary, never consist of more than six partners, though often fewer, and

are for the most part, managed by one, or at the furthest by two of them.

To the uniform success of Joint Stock Banking Companies, history affords but one exception, viz.:—The case of the Douglass, Heron, and Co. (or Ayr) Bank, some account of which is given by Smith, page 58, vol. 2nd, of his *Wealth of Nations*; but if we examine the circumstances which produced that failure, we shall find it attributable to causes which are not likely again to occur, and that as an exception, it establishes the rule.

About fifty years ago, this Bank was established in the West of Scotland, by a number of country gentlemen, totally ignorant of business, and entertaining erroneous views of Banking. Their object was not to make money, but to furnish capital, (which was then scarce,) to the country at large, in order to promote and improve the cultivation of land, &c. This they imagined could be done by means of a few reams of paper, manufactured into Notes. They were unable to see that it was not in the power of any Bank to keep more Notes in circulation than are wanted as a circulating medium by the country, and that the surplus would inevitably be returned upon them for repayment. Conformably to the object of its establishment, the Bank therefore issued its Notes, with great freedom, in permanent loans,

which were immediately expended in agricultural improvements, and when they were returned for payment (having been issued in advances which could not be recalled) it had nothing to pay them with ; and was compelled, in a short time, to raise money by improvident expedients, at eight or ten per cent. when it had lent it out to others at five. Such a mode of business was not likely, of course, to be long pursued. The Bank came to a stand in about two years, its establishers lost money, and it now remains the only exception to the success of such concerns.

It must, however, be understood that the uniform success of the Scotch Banks, applies only to the Joint Stock Companies. Private Bankers fail in Scotland, as well as in other places. The Private Banks in Scotland, however, are but few, and only one or two of them at present issue Notes. They keep the accounts of individuals, and transact business with the Public Banks in the same manner as the Bankers of London transact it with the Bank of England. But the credit requisite even to Private Banks is much greater in Scotland than with us, in consequence of their having to compete with establishments of superior stability, which do business upon the same terms.

The only Bank failures, however, that I have heard of in Scotland, with the exception

of the Ayr Bank already spoken of, are the Merchant Banking Company of Stirling, Grace's Bank of Dumfries, and the Falkirk Union Bank. The first two were each of them carried on by an individual, and the last had only three partners. To these must be also added, the Merchant Banking Company of Glasgow, about twenty years ago, a very small concern, which must likewise, I think, have been a Private Bank, as but few particulars are generally known respecting it. Had it been a Public Establishment, a greater degree of publicity would have been given to its affairs.

In consequence of the uniform success of the Public Banks of Scotland, the most unbounded confidence is felt and reposed in them, both by the stock-holders and the public. Every holder of stock, (except with the chartered companies) however small the amount, incurs all the responsibility of a partner, yet that responsibility having been proved by all experience to be merely nominal, has no effect whatever on the sale of it. A person buys a hundred pounds share of the stock of any of the Banks with the same freedom that he would purchase the same amount of stock in the three per cent. consols, without the responsibility weighing with him one shilling in the purchase.

In addition, however, to their success, some of the Scotch Banks have very considerable



capitals, particularly the Edinburgh Banks, which have from five to fifteen hundred thousand pounds each. Hence their credit is almost unbounded, being considered by the Scotch equal to that of the Bank of England itself. The evils, therefore, which we suffer from the feeble and fluctuating credit of most of our Banks, and the disastrous failures of many of them, are nearly unknown to the people of Scotland.

From the very great credit enjoyed by the Scotch Banks, they are enabled to transact business to a much greater extent, and on very different principles, than with us, by which still more important, though less obvious benefits are enjoyed, and which it will not be improper for us in the first place to consider.

The original and proper business of a Banker is to trade in capital. He ought to be that medium between the borrower and lender in the money market, which a merchant is in other commodities. It is the business of a merchant or trader to buy of the producer on the one hand, and to sell to the consumer or retailer on the other. He acquires a knowledge of both parties, and they of him, and for his credit, capital, labour, and knowledge, he charges a profit upon the commodity which, through his agency, is transferred from the party who has it to sell, to the party wanting to purchase it.



Now, what a merchant is in other commodities, the Scotch Banks are in the money market. They borrow of those who have money to lend, and lend to those who want to borrow, acquire a knowledge of both parties, and charge a profit of one per cent. upon the transaction. Any person opening an account, with them, receives four per cent.\* upon the balance in their hands. He may pay money to the credit of his account when he chooses, and is paid interest for it from the day it is deposited; he may draw his money out of the Bank when and in such sums as he thinks proper, and only loses interest upon the sum drawn, from the day of receiving it. On the contrary, any person giving proper securities, may open an account with them, and draw to the extent of the security given, for which they will charge him five per cent. upon the fluctuating balance he owes. Consequently, a person who has money to lend is saved all the trouble, not unattended with risk, of mortgages, and may have his money, or any part of it, at any time, should a desirable purchase fall in his way; whereas with a mortgage he cannot draw his money when he wants it—must take it altogether when he does draw it—or, if the borrower chooses,

\* Some of them have lately reduced the interest they give, but others continue to give four per cent. as before.

must take it whether he wants it or not. Their object, however, in borrowing, being to lend, the facilities given to borrowers are equally great. In the first place, they will discount bills and other mercantile securities, that are perfectly regular and good, at any time, and to any amount, so that merchants can calculate with certainty upon being accommodated in the course of regular transactions to any extent, which is of infinite service to them, as it would be better for a merchant not to have such assistance at all, as to have any uncertainty respecting it. In the next place, they grant Cash Accounts, that is, any person in business, by giving two sufficient securities, may open an account with them, and overdraw them to the extent of the security given, for which, as before stated, he is charged five per cent. upon the balance he owes; and very great advances, not to mercantile men only, but to all classes of persons, are made in this way; and in the last place, they make advances upon real property, some of them to a very considerable extent. The plan they pursue, I believe, is, for the proprietor to pledge his estate, or other property, with the Bank, for a given amount, open an account with it, and draw as his occasions may require to the amount prescribed. Thus, when any persons wish to borrow, the facilities held out to bor-

rowers induce them equally with the lenders to make application to the Bank.

As individuals often call in the money they have lent out on mortgage when they can find better employment for it, or when the death of a party produces a division of his property, by which a great expence to the mortgagee is incurred in procuring a fresh mortgage, Banks are therefore more to be depended upon, and borrowers being just as much wanted by them as lenders, and the money which they lend being rarely, or in fact, never, called in again until it is the pleasure of the borrower to pay it off, people, in want of money, will prefer dealing with the Banks at even a higher per centage, while lenders, on their part, prefer dealing with them at a per centage something less than individuals would give. Thus in consequence of the security of their property, and the readiness with which they can at all times obtain it when wanted, a difference of one per cent, is not found to be a sufficient inducement for the borrowers and lenders to pass by the Banks and to transact their business direct with each other. If they did, the gain would, of course, have to be divided between them, and a half per cent. would be no compensation to either party for the additional inconvenience, risk, and trouble, in which they would be involved. Whereas the Bank being open and

ready at all times to meet the wants of each party, unless among particular friends neither party ever thinks of making further enquiries upon the subject, but transact their business with the Banks as a matter of course. They are, therefore, at once, the great depositories of the money capital of the country, and the source from whence the supplies of it are drawn.

Although considerable advances are made by the Scotch Banks upon real property, it is, however, rather a ground of complaint, that they have been too much in the habit of speculating in the funds, when it might have been more to the advantage of their country that they should have lent out their capital at home; and while lending their money at home appears to be preferable for a Public Bank to gambling in the funds, it seems also to be the duty of such an establishment to lend its money at home whenever it can do so with equal safety.

The failures which continually take place amongst the English, particularly the Country Banks, and the consequent discredit in which they are held, of course almost totally precludes them from trading in capital in the manner pursued by the Banks of Scotland. The London Bankers are the only Bankers, it is generally understood, who at all do so, and they are not considered good mortgagees. The strict-

ness in having powers of sale, &c. granted them, which their limited credit renders necessary, in order to be able to call in their money at the shortest notice, should the state of their credit at any time require it, places the mortgager in a state of disagreeable dependance. The business of an English Country Bank is, however, principally confined to lending out that capital which it raises by the circulation of its Notes, and the comparatively small sums deposited with it, mostly without interest, (its customers seldom depositing more money with it, than their current occasions require) and to buying and selling Bills upon London. The advances of capital which it makes are, of necessity, principally confined to the discounting of such short dated Bills of Exchange as through its London agents can be turned at any time into cash : for, being always liable to be called upon to pay off its Notes, and all the money in its hands, at the shortest notice, it must always be prepared to do so ; and the most prudently managed and best English Banks are those which confine themselves most strictly to the limits which their uncertain credit prescribes to them.

Credit is, in fact, the proper capital of a Bank, without which it is impossible for the business to be carried on with any great advantage to the country, and for want of which the

business of English Banks, extensive as it may appear, is very short of what it ought to be, being quite inconsiderable compared with the Banks of Scotland, or what it would be with a different system.

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Thus then, it appears to be the result of experience, that while our Banks are often destructive, at all times dangerous, and at the very best totally inadequate, from want of stability and credit, to perform the proper functions of Banks, the Scotch Banks never fail, nor is any danger ever apprehended from them ; and that, in consequence, Banking is carried on in that kingdom to an extent unknown, and, of course, with advantages totally unfelt in our own.

We have stated that the superiority in the success, as well as the stability and credit of the Scotch Banks, arise from their being public, and not private concerns, which is also proved by our own experience. We have but one Public Bank, the Bank of England, and it has uniformly done well since its first establishment. The same may be also inferred of the Bank of Ireland, the only Public Bank in that country ; for lately, when applying for a renewal of its charter, it appeared, that besides its annual dividends, it had made and saved half a million of money, a sum much greater

than the Stock-holders had any conception of. This at once proves, that successful management is not at all peculiar to Scotland, or any nation, but is inherent in the system itself.

The cause of this difference proceeds from the charters of the Banks of England and Ireland, which prevent, in their respective countries, more than six persons from entering into a Banking concern, while, in Scotland, there is no such monopoly, and Banks can be established on the proper principles, and as many people become partners in them as choose.

From the limited number of partners in our Banks, their management has frequently fallen into hands totally incompetent to such a trust. There is, perhaps, nothing in the theory of Banking very complicated. But to manage a Bank well, requires a degree of firmness, and judgment, which every individual does not possess. If a Banker be too safe and injudiciously cautious in his transactions, he is apt to ruin his business for want of liberality; if too confident, to ruin himself for want of prudence; while he must possess firmness sufficient to enable him to refuse the most pressing solicitation of even his friends, when necessary to do so. This knowledge, discrimination, and firmness, not only require natural talent in the person possessing them, but previous practice and experience in the business of the world.



Whereas persons are often placed in the management of English Provincial Banks, by some connection or other chance, which usually determines the lot of individuals in the common affairs of life. Or, if they are chosen expressly for their presumed fitness for the trust, their fitness will then depend upon whether the partners who chose them, are themselves sufficiently competent to form such a choice ; independent of which, however, the energy and vigilance of every individual is at times apt to slumber, and we occasionally find the ablest men get very far wrong.

Now, the true reason of the success of Public Banks may be ascribed to their never being managed by any single person, but by a Court of Directors, periodically chosen by the holders of stock ; and their fitness for the trust does not depend upon the opinion of an individual or two, but of hundreds, founded upon the clear evidence which their successful management of their own affairs has afforded. No man is ever chosen as the director of a joint stock company, where the choice is unbiassed by influence, who has not given sufficient proof in the eyes of the world of his ability for the management, and has not justly inspired his fellow proprietors with that confidence which they repose in him.

The principal causes which produce the ruin



of private Banks may be stated to be,—first, a confusion in their accounts, arising from a bad or relaxed and careless management, so very frequently exhibited in common affairs; but which, in Banking, must ever be fatal; secondly, speculations with the capital in the Bank; and thirdly, and most frequently, accommodating great houses, either from motives of private friendship, or the temptation of extra Banking profits, until they are so involved that they must stand or fall with them. The two great failures which have happened in this part of the country were Surtees, Burdon and Co. and the Durham Bank. The first was produced by entering into private speculations with the capital in its hands, and the last by accommodating a great mining concern. But with Public Banks these causes, by which failures are generally produced, cannot exist. In the first place, the vigilant check necessarily kept upon the accountant, and those who have the charge of the books, which must at all times show, without trouble to the Directors, the state of the company's affairs, prevents the possibility of their getting back or into confusion. In the next place, the Directors could not appropriate the money of the Bank to views of private speculation, if they were wishful to do so, as they are a check upon each other. If they were respectable men, they would not at-

tempt it, and if they were not, they would not be there : besides, there is no instance recorded of such a thing. In the third place, they have too little personal interest in the Bank to be tempted by extra profit out of the path of safety, in accommodating great houses : or if any of them were influenced by private friendship to do so, it could never be the case with them all ; and they would be also in that respect a check upon each other.

Independent of the general Court of Directors, there is also a Managing Director, Cashier, Secretary, and Accountant, or sometimes Cashier, Secretary, and Accountant, or Cashier and Accountant alone, according to the business done, either the Cashier or Secretary in the latter cases acting as Managing Director, and taking all the practical management ; and if the Directors are careful to choose men fit for these stations, and see that they do their duty, the concern will generally succeed.

The Directors having in general business of their own to attend to, cannot give their whole attention to the Bank affairs. Their part is more to deliberate, judge, and determine, than to contrive. Consequently the Managing Director, or he who is at the head of the executive department, sits with and joins the Directors in their deliberations, and proposes to them such views and opinions as his practical knowledge

and undivided attention to the affairs of the Bank, suggest to him. These they take into consideration, and approve, alter, or otherwise direct, as they may think proper. The energetic and profitable management of such a concern, therefore, greatly depends upon the ability of its officers, who are expected to submit a variety of views and propositions to the Directors, of which there is no fear that they adopt any which are too speculative. The errors of Public Banks are generally on the side of safety, but the concern is apt to flag when the practical management is not in the hands of men possessed in some degree of ready apprehension, practical energy, and talent for business; and I understand, it is consistent with experience, that when the officers of a Bank are not of this description, the business of the concern is apt to fall off, and to become less profitable.

The business, however, of such a Bank, though it may not be pushed, is seldom neglected. When the Directors can give no attention to the concern, they generally resign, or when it is their turn to go out, are not re-elected. On the other hand, they are not likely to get wrong in taking up sanguine views, by which individuals often mislead themselves. They are responsible in the estimation of the Stock-holders for all that is done, and

individually have but little to gain by success ; whereas, if their management produced any considerable loss to the concern, they would be turned out of office, and stand committed with the public in a manner that would render them ridiculous, and necessarily produce feelings the most disagreeable and painful.

As, therefore, it thus appears, that the causes which operate in producing the failure of Private Banks are totally prevented by the constitution of Public Companies, we cease to wonder at the uniform success by which the latter are attended. But the risk incurred by Bankers is not, perhaps, so great as we are apt to imagine. With loans on property, or on the personal securities required to establish a Cash account, there is no risk at all. Property is not taken, if not sufficient to cover the loan upon it, and the sureties accepted when a cash account is opened, are each of them required to be sufficiently able to fulfil the obligation of the bond they enter into. Should any thing happen to either of them, another name must be immediately substituted. Independent therefore of the party with whom the account is opened, there are always two perfectly good and sufficient sureties, to make up any deficiency, even to the full amount of the debt, should it be called for.

The greatest risk incurred by a Bank, is in

the Discounting of Bills of Exchange ; though it is, at the same time, its most desirable business, from being the principal means by which it keeps its Notes in circulation. But with this class of business also, the risk, under proper management, is much less than is supposed. It is said, that the Bank of England, in ordinary times, does not calculate upon a greater loss than one pound in three hundred thousand. Leith is quite a speculating town, and its merchants are subject, in consequence, to considerable vicissitudes. Yet the Branch of the Commercial Bank there, during the first four years of its establishment, did not lose one pound out of many millions of discounts, although, in consequence of having entirely new connexions to form, it rejected no business that it could with any degree of prudence accept. The experience of those also, who live in country towns, where the losses which the Banks sustain are generally known, will point out to them, if they have made the observation, that it is only very rarely that a well managed Bank suffers any loss at all.

The Scotch Banks, in fact, in the arrangements which they make with their agents established in distant towns, assume that there is no risk whatever, and lay it down as a rule, that if they incur any loss, they are to suffer it themselves. The Directors in general select

for Agents, tried men of business, who have proved, by the manner of conducting their own affairs, their capability of successfully transacting whatever may be confided to them. Securities are required of them, in a town of any business, to the extent, I understand, of not less than ten thousand pounds, and they receive a fixed salary of (say) from two to four hundred per annum, according to the size of the place and business done in it. It is, I believe, generally calculated by the Agent, that if he can make out a case of very unforeseen loss, it will be partly allowed him ; but the assumed principle is, that there need be none at all. It is a most curious circumstance, however, and completely proves the insecurity of private management in Bank affairs, that the Banks lose more money through their agents than in any other way.

The distance of the town, where the Agent is established, from the Bank, renders it impossible that any proper judgment can be formed by the Directors, of the stability of the persons with whom the Agent does business. The great sum, however, required as a security, the business character he possesses, and the risk he himself runs, naturally remove all suspicion as to the prudence of his transactions. Should his affairs become involved, he is, perhaps, sufficiently clever to hide it for a considerable

length of time. This he probably does with the hope of recovering himself, until the failure, perhaps of some house he has imprudently accommodated, or his deficiency is too great for further concealment, when his own ruin, the loss of the friends who are security for him, and the loss of the Bank besides, to perhaps three times the amount, prove his unfitness for the trust that has been reposed in him.

This does not unfrequently happen, and no greater proof of the insecurity of private management could well be afforded. If Agents, without the temptation of profit, and under the control of their Banks, cannot keep right, how much more likely are Private Banks to get wrong, without any such control, and with all the usual temptations to influence them?

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Although our Banking System, the worst surely that could be devised, has been so long in its present state, its effects seem not to have forced themselves on the consideration either of the government or the public, until lately, when the failures in Ireland, and the lamentable effects produced by them, attracted the notice of the whole kingdom, and called the attention of those interested in the welfare of Ireland, to the subject.

In a conversation which, in consequence,



took place in the House of Lords, upon the state of commercial credit in Ireland, the Marquis of Lansdowne stated, that *the present* distress in Ireland was principally occasioned by the late failures amongst the Banks in that country, which failures were to be attributed to the law that limited the number of partners in Banking Firms, and he called upon Lord Liverpool, with reference to Ireland, to remedy the evil by an alteration in the law, in order that proper Banks might be established. In answer to this, Lord Liverpool said, “ that “ not only did he agree in the suggestion of “ the Noble Marquis, but it was his anxious “ wish that the number of partners should be “ extended not only in Ireland, but in Eng- “ land,” and instanced the hardship of Liverpool, Bristol, &c. being prevented from establishing Banks that would be instrumental to their prosperity and strength.

Since that time a negotiation has taken place between government and the Bank of Ireland, in which it has been stipulated, that the Bank shall give up the restrictive clause in its charter with respect to Country Banks, and it has done so without an objection. A bill has consequently passed through parliament, by which, in the country districts of Ireland, Public Banks may now be established.

After what has been said by Lord Liverpool,



as well as what has been done for Ireland, there can be no doubt of the disposition of government on the subject. It is the declared wish of Lord Liverpool, who expressed the general sentiment of ministers, (as their subsequent conduct with respect to Ireland has proved) that the impediment to the establishment of proper Banks ought to be removed, and that this country should enjoy the advantages of a better system.

To again call the attention of government to the subject, is all that is now, therefore, necessary ; and it will be creditable to the spirit and intelligence of the Gentlemen, Merchants, and others of the town and neighbourhood of Newcastle upon Tyne, to be the first to set the example. The proper plan to pursue is, in the first place to form a company, and then appoint a deputation to wait upon ministers, and the Directors of the Bank of England, and negotiate with them respecting the alteration proposed, and at the same time, pursue such other steps as may prove necessary to the ultimate attainment of the object desired.

That such an application must be made by a Company, to be made with proper effect, is evident. A Company will carry with it a weight which no individual can have, while it will prove how much alive the country is to the advantages of a better system, by its readi-

ness to adopt it. It will also evince a proper confidence in the declaration of ministers, as made by Lord Liverpool, that they wished to see a better system of Banking introduced; and there can be no doubt that the ministry will have every disposition to give to their own declaration the earliest effect.

There is in fact but little doubt that government will use all its influence to get the charter altered, on an application to it for that purpose. There can exist no reason why it should not. Ministers have declared the clause a great evil, and are bound by their sense of duty to endeavour to remove it. They have done so with respect to Ireland; and can have no motive or apology for not doing so with respect to us. Ministers, I suppose, will occasionally be wrong as well as any other set of men. Yet so far as we can see, they are generally conscientious. A sufficient ground may sometimes exist for their opinions and conduct being at variance; but there is evidently none in the present case, and their co-operation may therefore be relied upon.

The charter of the Bank of England does not, however, expire until 1833, and the obnoxious clause will require to be immediately expunged from it. But this can be done without injuring the Bank, and the wishes of ministers, with the directors of the Bank, must neces-

sarily be imperative. Besides, we have nothing to fear from the directors themselves, who, in conducting the affairs of the Bank, have always acted upon disinterested and public spirited principles. Neither can it be supposed that any measure for the public welfare, which was conceded by the Bank of Ireland without an objection, would be resisted by the Bank of England. The consent of the directors to any alteration which benefits the public without materially injuring the Bank, may, therefore, also be relied upon. Yet, as to anticipate the worst, is sometimes the best policy, (viewing it as a possible case that the directors may not be at once disposed to accede to the wishes of the nation,) we will examine whether, in that case, parliament ought not to alter the clause without their consent.

The Bank, though intimately connected with government in its transactions, is an independent establishment, governed by directors of its own choosing. It was commenced by individuals as a speculation, and was chartered by government on the grounds of its public utility. Upon the same principle it has been continued a Bank by its proprietors, and the charter renewed by government to the present day. It would be absurd to suppose that the Bank proprietors would have carried on the Bank merely to serve the public, had they not there-

by served themselves, or that the public would have conferred upon them, A. B. and C. the holders of Bank Stock, any exclusive privilege from time to time, except upon the ground of public advantage.

That the Bank is held to be as much a public institution as a private speculation, is evinced by the interference of Parliament in its affairs. This interference is quite opposed to the common law of the land, yet it is perfectly justifiable with respect to the Bank of England, in consequence of its enjoying privileges as much for the public benefit as for that of its proprietors. The Bank is in fact an engine of the state ; and acts of parliament are continually made for regulating its affairs, without any reference to the proprietors, but solely for the public convenience ; and the right of parliamentary interference in its affairs, when the public good is involved, is clearly established by this usage.

It must, however, be kept in view, that though the affairs of the Bank have been regulated by the independent authority of parliament, its substantial interests have never been infringed upon. At each renewal of its charter a pecuniary fine, or loan at a reduced rate of interest, has generally been exacted, by which it has fairly purchased the profit to be made by its charter during the term of it. Hence the

pecuniary emoluments which were intended to be secured to it, have never been curtailed. Mr Pitt, when he persisted in drawing the specie from the Bank, protected it from the consequences of his doing so, by an act of parliament to suspend the payment of its notes. From this restriction it derived great advantage ; and although when the Bank was ordered, by act of parliament, to return to cash payments, the measure was contrary to its interests, it only restored the contract to its original footing.

Now the exclusive right of Banking, as a Joint Stock Company, in this kingdom, is of no advantage whatever to the Bank, except in London and Lancashire, and the latter is probably the result of chance. The advantage it derives from it is the monopoly which it secures in those districts to the circulation of its notes. Private Bankers, in London, are not prevented, any more than Country Banks, from issuing notes, if they thought proper, but they would be continually liable to runs upon them, from the never-ending rumours of the metropolis. In the country, a Banker's property is seen ; his economical habits, and prudent management, if he possess those qualities, are generally known, and a run upon him without some cause, cannot so easily happen. In London, on the contrary, the public at large, or even the customers of a Bank, have hardly any means

of forming a knowledge as to the management, prudence, or property of its partners. Hence its credit would be totally at the mercy of every offended or malignant individual, runs would continually happen upon one Bank or another, and the town would be in a continual commotion. No Bank, therefore, whatever may be its present credit, would find its interest in issuing notes, and it is probable that as the charter, and the present system of Private Banking now stands, it is perfectly effectual in securing the Bank the monopoly of London.

In the country, however, with the exception of Lancashire, Bank of England Notes have no circulation at all. Country Banks issue their Notes, in general, upon the same terms as the Bank of England ; making no other charge than the interest upon the Bills they discount. The Bank of England having no means of issuing its Notes out of London, the Country Banks entirely possess the country circulation. Independent of this, Bank of England Notes would not pass in most parts of the kingdom, as, where Local Notes can be had, no person in the more Northern Counties, will take a Bank of England Note if he can help it. The signatures of Country Notes are, generally, written in a legible and distinct uniform character, peculiar to the writer, and well known to the public. Hence every person can,

at least, attempt, to form a judgment, whether a note is forged or not. Should his observation upon hand-writing not be sufficient to enable him to distinguish any discrepancies in it, or between it and a printed fac-simile, the notes have, in general, some little figure or etching, with which he is familiar, and in which he might discover any slight variation from the original. But, in consequence of the number of Bank of England Notes to be signed, from their not being more than once issued, the signing clerks and signatures are so numerous, and the latter are written so hastily, that nothing can be ascertained from them; and the object of the signature is totally defeated. I never remember having once seen a person look at the signature of a Bank of England Note, in order to ascertain whether or not it was a forgery. The rest of the Note is also little more than a piece of plain printing, and presents (at least to a person in the country,) nothing by which a forgery can be distinguished. Country Notes therefore are always preferred.

In Lancashire, however, there seems to be a prejudice in favour of Bank of England Notes, which is rather surprising. The Banks there do not, in consequence, issue their own, but Bank of England paper, and to compensate this supposed disadvantage, charge a commission upon their discounts; which method must ren-



der their business a great deal less hazardous, and more profitable. Hence also they are never subject to runs, and when they discount a Bill, are sure of their commission of 5 or 10s. per cent. Banks in other districts, on the contrary, that charge no commission, constantly have their Notes returned upon them through other Banks, the next day after issuing them; and, by this means, where the Lancashire Bankers would gain a handsome profit, they often do not make a farthing. By this prejudice, however, the Bank of England also enjoys the almost exclusive circulation of Lancashire.

It has been very usual to consider the derangement and loss by the circulating medium, particularly to the poor, the greatest evil attending the failure of Banks. This is, however, an erroneous view of the matter; for Country Notes are, upon the whole, a better currency than Bank of England paper. A good deal of present inconvenience may occasionally for a short time be sustained where the Banks of a country fail all together (as was before mentioned of Ireland); but the loss by the Notes in actual circulation is widely spread, and, comparatively speaking, little felt. The evil would be trifling if it extended no further than to the Notes which are in the hands of individuals; that proportion which is held by the lower classes, even taking it in the aggregate, can never be considerable, more



especially since the Savings' Banks were established; it will probably seldom exceed a pound to a hand, and even in that case, the Bank ought to fail on Saturday, the day on which wages are generally both paid and spent. The circulation is principally in the hands of tradesmen, and the richer classes; and there are very few of the latter who would not prefer the risk attending Country Paper, if it were three times as great as it is, rather than incur the plague, trouble, and inconvenience which they suffer from the fear of forgeries, so prevalent with Bank of England Paper, as well as the loss by them, which there is no avoiding. This is incontestably proved by the decided preference which is actually given to the paper of Country Banks wherever it is circulated.

Upon considering the generally acknowledged superiority of Country Notes, it seemed at first natural to think that the prejudice existing in Lancashire against them must have originated with the Bankers in that part of the country themselves, as it was apparently their interest to support it. I had even formed a conjecture to this effect, until I observed in the papers of the day an account of the transactions and resolutions of a meeting, held on the 1st of September last, by the Merchants and Manufacturers of Manchester on the subject. By the proceedings at this meeting, it seems that the Bankers of

that town, not content with the present profits of their trade, have had it in contemplation to issue notes, expecting, no doubt, to enjoy their present commissions, and the advantage to be gained from the circulation of the country besides. This scheme it is likely, in the end, they would have found impracticable; for in the free competition of this country, the profits of no trade can be kept for any length of time above their natural level, and the ruin of their commissions, from the competition of other Banks, would most probably have been the result. But the merchants and manufacturers met for the purpose of resisting the attempt, and refused to take the notes which it was thus proposed to issue. A great deal of very ingenious arguments were used by the proposers of the resolutions entered into at this meeting. The statement, however, which probably carried the most conviction and unanimity along with it, was the fact, that fewer of those Banks fail which do not issue Notes, than of those which do. Now, as there is no reason why Banks that issue notes, and get smaller profits, should undertake greater risks than those who have more temptations of profit to influence them; as also there can be nothing in the mere issuing of their own notes very materially different from that of issuing those of any other establishment; and lastly, since

though they may stop payment by a run, they seldom become bankrupts when they are not insolvent : the difference mentioned must principally arise from the issuing of notes being attended with the same risk, but with much less profit. It is inconceivable that the issuing of notes should make any other difference than that which arises from reducing the commission upon discounts. Bankers who circulate notes may, from the fear of runs, be obliged to circumscribe their business, and without great profits, may indulge in great expence ; or should they have lent out their money too freely, they may also, it is true, be brought to a stand by a run upon them ; but if they are solvent, any loss which may be thus caused will of course fall upon themselves.

The superior safety of those Banks which do not issue notes, can, therefore, I apprehend, only arise from their business paying them better ; and if the merchants and manufacturers of Manchester will continue to pay Messrs Jones and Co., or Messrs Heywood and Co., the same commission as before, they may be safely allowed to do as they think proper. But if the Bankers take the very sensible advice of Mr Wood, they will make no further attempt to alter their present system. The fear of runs might compel them to curtail their business, and they may be sure the profits of Banking in

Manchester, as in other places, would find their level. The probability therefore is, that if they were to issue notes, they would discover, in the end, that in grasping at the circulation, they had only illustrated the fable of the Dog and the Shadow.

The apprehensions expressed at this meeting, that persons of no property would issue notes, and maintain a circulation in competition with Bankers of stability and credit, is supposing what is contrary to experience, and could never happen. But in this case there is little doubt that, in time, the trade of Banking would not be so profitable in Manchester, and the business would be done upon more liberal terms; if the Banks issued notes, the present bankers might go out of the business, others would not make so much money, and they would consequently not be so safe as the rich Bankers in question. In that view of the subject, therefore, the meeting was right in the resolutions it adopted. But to pay a Banker an extra profit, in order to render you safe in transacting with him, is the same as giving a premium for insurance against a sea risk. It is prudent, at any rate, perhaps, to insure, though the premium may be high, but it becomes a question for serious consideration, whether you cannot get your insurance effected at a cheaper rate.

The circulation of the Bank of England

notes in Lancashire, is evidently founded upon a view of the subject taken up by the manufacturers and merchants in Manchester alone, and in consequence it is only enjoyed by a kind of chance. To give the Bank that circulation was evidently, therefore, not the intention of the charter, while the tenure by which it is held is too frail to be relied upon, and therefore can neither be argued upon as a matter of right conferred by the charter, nor depended upon as a source of profit.

The right, consequently, of the Bank to prevent more than six partners entering into a Banking Concern, is, with respect to the whole kingdom except London, a right which confers no advantage upon it, while it loosens the whole frame of commercial credit, of which Banks are the pillars and support. To call it, therefore, a right, with respect to the country, is improper; legally it may be so termed, but equitably it is nothing but a wrong.

It seems also by the act which conferred it, that this privilege was first granted by a mistake. By stat. 6 Anne, c. 22, it was enacted that "*for securing the credit of the Bank of England,*" no other Banking Company in England should consist of more than six partners. Now it did not secure the credit of the Bank of England in the smallest degree. The credit of the Bank of England depended upon the a-

mount of its capital and the state of its affairs. This act merely ruined the credit of every other Bank ; and it is almost certain that had the true object of the bill been stated, and had the preamble run thus “ *for the intent and purpose of ruining the credit of all the unchartered Banks in England, it was enacted, &c.*” it may be safely affirmed, that no such act would have been passed by any British Parliament, at least since the Revolution. The error then committed, has been continued to the present day ; but when the practical evils produced by it have been so severely felt, and are become so evident, it is the duty of parliament to correct it.

Parliamentary interference in the affairs of the Bank, is, as we have endeavoured to shew, a right which practice has conferred ; but, admitting, for the sake of argument, our conclusions on that view of the subject to be erroneous, it must be obvious to the commonest apprehension, that there is a right in any government to take from any body of men, a monopoly which does them no good, while it does the country a great deal of harm. An indefeasible right of inflicting a wrong, would be a new principle in our institutes.

The only permanent and substantial good which the Bank derives from the clause in its charter is the monopoly of the circulation of London, and its neighbourhood. The circula-



tion of Lancashire, as we have seen, cannot be depended upon.

Now, a worse way of securing the circulation of London cannot be conceived. The object is to prevent the Bankers of London from issuing Notes ; and the manner of doing it is to weaken their credit, and keep it so low that they cannot. Nothing could be more simple, nor more effectual, than to prevent them from issuing Notes, by enacting that they should not do so. Instead of that, the object is accomplished by taking from them their credit, the vital principle of their trade. It would be just as proper to bleed a horse in order to diminish his speed ; to take from him his strength in order to reduce his action ; instead of an additional bridle and curb, to restrain his pace by the weakness produced from the frequent use of the lancet ; you would, no doubt, thereby effectually reduce his fire and check his speed, but you would also ruin his constitution, and the probability is, in such a case, that upon the slightest trip, both horse and rider would tumble into the ditch. Nothing, in fact, can be more absurd than the present manner in which the monopoly is secured, while its baneful influence extends to every part of the country. The constitutions of our Banks are unequal to the burthens they have to support ; and it may be truly said, that the

Banks and the country are continually, in some part or other, tumbling together into a ditch, and often one so deep that they never get properly out again.

It must be admitted that the restriction is productive of less apparent ill consequences in London than in the country. The reason of this is, that the business of Banking is more profitable in London, (where all business is generally better managed) than it is in the country; for it is principally in the hands of old houses, conducted by acting partners, who have been all their lives in the houses which they manage, and who have raised themselves by their industry, experience, and talents.

All, therefore, that the country requires is, that its monopoly be secured to the Bank of England, in a more simple and direct manner. That in lieu of the clause enacting, that not more than six partners shall enter into other Banking concerns, it be enacted that no Banks shall issue notes within the boundaries of the present monopoly. In doing this, there is no infringement of the rights of the Bank. The object of its charter is to give it an exclusive privilege, which, by this alteration, will be the more effectually preserved; for it is merely incidentally secured by the present terms of it.

Government have no right to do the Bank an injury, but they have surely a right to



remove from its charter any impediment to the public welfare, upon granting it an equivalent. This is nothing more than the principle upon which all Acts of Parliament are passed, for making roads, canals, &c. through private property. The individual is fully compensated for the loss he sustains, and substantial justice being done him, his inclinations are not consulted in the matter.

If an argument in favour of the present system should be drawn from the circulation enjoyed by the Bank in Lancashire, the merchants and manufacturers of Manchester have it in their power, effectually to destroy its efficacy. They have but to encourage, instead of suppressing Local Notes; and whether the present Banks issue them or not, they will, no doubt, by the competition of trade from other quarters, find their way into circulation.

It is, however, equally the interest of the Bank, to have its monopoly secured in a more direct and less questionable manner. Any person may, at present, issue Notes in London, and nothing but want of credit, prevents Private Banks from doing it. If any plan, however, should be thought of, to give the Notes of Private Banks sufficient credit, there would, doubtless, be found Banks to issue them, and there can also be little question that the public

would, as in the country, give them a preference.

Without entertaining any wish to deprive the Bank of its monopoly, but to show that it does not stand upon the securest footing, how easy would it be for Private Banks in London to adopt the plan proposed by the Chancellor of the Exchequer two or three years ago, with respect to country establishments. If, for instance, a private Bank were to issue half a million of paper, it might purchase stock to that amount, and assign it to trustees, these trustees might indorse and guarantee the notes, holding the stock to meet their payment, should they be ever called upon by the failure of the Bank. There would then not only be value in the funds sufficient to pay them with, which could not be applied to any other purpose, but the holders of the Notes, should it be necessary, would have a claim upon the estate of the Bank to the full amount of their value, and thus no apprehension respecting them could possibly be entertained. A renewal would, of course, from time to time, be requisite, but the trustees would take care, for their own sakes, before they endorsed a new Note, that an old one of the same value should be cancelled.

Many other plans might, I have no doubt, be contrived to attain the same object, and render the Notes of private Bankers perfectly

safe to the public, by which they need not as now apply to the Bank of England for Notes, but issue their own, and in that case the charter of the Bank would be rendered almost useless. The alteration proposed, therefore, is as much the interest of the directors and proprietors of the Bank, as of any set of men in the kingdom. The charter of the Bank does not expressly confer a monopoly, nor could it be discovered from the charter itself, that the monopoly of a circulation of Notes was intended. But if a monopoly was intended, there needed to have been no fear of expressing it in words ; and it would now be desirable to the Bank for it to have that monopoly which it has paid for, clearly expressed and secured to it. Thus there can be but little doubt that we shall meet with the ready co-operation as well of the directors, as of parliament and ministers, in the measure.

The only persons who will be injured by it, will be the present Bankers. But no set of men can expect a country to continue voluntarily to submit to an evil after it has discovered the cause and can apply the remedy. They must take the fate incident to all rights or institutions, founded in error : as soon as truth appears, the fabric, for want of its foundation, must be destroyed. But on none can a loss fall more lightly. If a Banker be not independent of his trade, he ought not to be a Banker. He has gained a

credit that he is not entitled to ; and to deprive him of a business he should not, and could not carry on, if the public were aware how little security he afforded them, is nothing more than an act of justice. If he be independent of his business, which the great majority of Bankers are, he may lose, but cannot feel his loss very severely.

The Clerks and Managers of those Banks, whose business may be curtailed, will find as good, if not better situations than they had before, with the New Companies, who will, as a matter of common sense, be anxious to employ them, for the sake of their practical knowledge. Hence we may safely calculate, that the amount of positive injury to individuals, produced by the loss of the means of support, from the proposed change, will not be great ; and by no means equal to what the failure of any one considerable Banking Concern would occasion, under the present system, if it be continued.

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In order that we may form an idea of the profit to be made by establishing a public Bank in this town, we will next examine the success that has attended those which we propose for our models.

The stock of many of the Local Banks of Scotland has sold much higher than the stock of the Edinburgh Banks. The Edinburgh Banks,

however, are those to which we shall more particularly refer, as the business of this town and neighbourhood is sufficiently extensive to require an establishment of equal magnitude.

There are four Banks in Edinburgh : The Royal Bank of Scotland, The Bank of Scotland, The British Linen Company, and The Commercial Bank. The last established was the Commercial Bank, in 1810 ; it commenced with a subscribed capital of Six Hundred Thousand Pounds ; it has divided from 6 to 8 per cent., and its stock is at present at 50 per cent. premium. It has had to contend in a ground completely pre-occupied, and the most ruinous times in our mercantile history ; and in struggling to form connexions, it has been led into the midst of the failures that have happened, and has met with considerable losses. The Directors have, in consequence, reduced the dividend from 8, which they had paid the first few years, to 6 per cent. Its stock, however, has not fallen in consequence. It has never, I understand, been higher than it is at present ; and there is little doubt, that had it continued to divide 8 per cent., the stock would by this time have doubled its original value. The Directors, it is supposed, will not again divide more than six per cent., until they have accumulated such a reserved fund as that, in future, when the dividends are increased, there may never be a

necessity for their being reduced again. The success upon the whole of this concern, considering the opposition it has encountered, which was very great, and the bad times it has met with, which were equally so, has not, I have heard, disappointed its Stock-holders.

The Bank of Scotland, and Royal Bank Stock, are at a premium, I understand, upon the original capital advanced, of from about 90 to 140 per cent. But their capitals are, I believe, a million and a half each, being unnecessarily large for the Trade of Edinburgh. Their credit would be as good, and their business as extensive, if they were to pay off half their capitals, each Stockholder would then get as much profit upon half his present stock as he now does upon the whole of it. All that a Bank can gain by capital is credit, and when its capital is sufficiently large to put that upon the most solid basis, it is as large as there is any occasion for. More only incumbers it, and and would be as well in the hands of the original Stock-holders, many of whom would probably turn it to better account.

The most successful, however, of the four establishments, has been the British Linen Company. It commenced originally with one hundred thousand pounds, which afterwards, either by an accumulation of profits, or by a further advance of capital, was doubled. Upon

this capital it annually made very handsome dividends, and also accumulated a reserved fund, which, about eight or nine years ago, amounted to nearly three hundred thousand pounds, making its capital, in all, nearly half a million. It was not then a Chartered Company, but it applied to Government for a charter, and got one, the proprietors having, it is understood, subscribed a small deficiency necessary to raise their capital to five hundred thousand pounds. Since then they have gone on, notwithstanding the precarious and disastrous state of the mercantile world, with almost unparalleled success, so that now their half million of stock is worth a million and a half; it meets a ready sale at not less than two hundred per cent. premium. I do not imagine that their charter has contributed much, if any thing, towards this increase of value. The only advantage the charter gives, is to free the Stock-holders from responsibility beyond their respective shares in the capital of the Bank. This, however, can be no advantage in Scotland, where the very idea of danger, beyond a capital of half a million, would be considered as one of the absurdest chimeras that could be entertained. I do not suppose the stock of the Commercial Bank, which is not chartered, sells for a pound less on that account. It is, in proportion to the interest paid upon it; nearly



about the same price as the 3 per cent. consols, and it is not likely a charter would raise it higher. I therefore imagine that the value of the British Linen Company's stock arises altogether from the ability with which the Bank is managed, and the amount of dividends it consequently makes. It must be also considered, that government could not, with justice to the public, and therefore would not, grant a charter, if it was really any thing more than a name. It would never agree to exonerate any set of men who enjoyed a certain gain, from the loss incident to it, and throw it upon the unsuspecting public. It is only when the capital of a Bank is sufficiently great to satisfy the most sceptical doubt with regard to the safety of the public, that a charter can ever be granted. Besides which, if the freedom from personal responsibility conferred by the charter on the Stock-holders of the British Linen Company, had been of any real use in freeing them from risk, it must have destroyed their trade. Nobody would make permanent deposits in a Bank, whose partners, by any peculiar privilege, were freed from the loss which their own transactions involved. They would naturally have dealt with those that had no charter, in preference, or with the other Chartered Banks that had three times the capital. Had the



charter not, in every respect been a mere dead letter, it must have injured the concern.

It is evident, that if Banking is carried on at all, it must be with a profit more than adequate to the risk incurred; and those who gain the profit must take the risk they are paid for. The reason why the charges of Bankers are so small is, that they are found, with judicious management, to cover all risk, besides leaving a sufficient profit.

The business for a Bank in this town and neighbourhood, I should think by no means inferior to that of either the Commercial Bank or British Linen Company. In the present state of the country, however, as it is far from being certain that government may not be compelled to reduce the interest of the national debt, it is not necessary to make out a case of extravagant profit, in order to induce capitalists to enter into such a concern. Equal interest with greater safety would of itself be a sufficient inducement. But with the chance, which experience has reduced to a certainty, of increasing their capital at least 50 per cent. what probability is there of capitalists turning their money at present to such account in any other way?

As this Bank will be the first of the kind, it will also, with equal management, be the best. There is no connexion more stable than the connexion of a Bank. When a person once

opens an account with it, if he does his business creditably, he never has occasion to leave it; and if he does not, he could gain nothing by the change. Hence it generally happens that merchants adhere through life to the Bank they begin with, provided it stands. When, however, in addition to this, we consider the fine field which this great mining and commercial district presents, we may be a little more sanguine in our calculations. I should think we have a right to expect as great a profit as has ever been made by any public Bank yet established.

Where public Banks have not been established, and I may say, also, where private Banks have, there appears always to have existed a prejudice on the subject of Banking. On this account, at the first formation of public Banks, we generally find it has been considered politic to encourage them, by granting charters. That there exists at present in this country a great prejudice against Banks and Banking, from the disasters they have produced both to the partners in them and the public, there can be no question. As also there can be little doubt that when the present impediment is removed, government will be disposed, for the benefit of commerce, and for the general convenience derived from public Banks, to encourage them, I should suppose that where a sufficient capital is

subscribed, there will be no objection to granting a charter, if it is required. I would therefore propose, that the Bank in question be commenced with a capital sufficient to command a charter, if one was desired, or to make it a matter of perfect indifference in the event of government declining to grant charters, whether one was to be had or not. It is also reasonable to suppose, that in granting charters, government will only require such an amount of stock, to be possessed by each Bank, as the business of the place where they may be established, shall seem to render necessary. The capital required for a Bank in Manchester or Liverpool, where mercantile transactions are so large, could not be employed in a small town like Sunderland, and would never pay in a town like Newcastle.

Considering the business of this town and neighbourhood, however, we should suppose that government would not grant us a charter under half a million of capital, if it would even grant a charter at all with a less sum; and we should think, that with such a capital, it would be immaterial whether we had a charter or not. The most sceptical, whatever their prejudices on the subject might be, could never imagine any danger with such a security, either to the public with a charter, or to the private property of the Stock-holders without.

So large a capital, however, would warrant a greater extension of business than our own town affords. The Edinburgh Banks have agencies, and do business to a great amount, in all the principal towns of Scotland, which no doubt is on the aggregate found to pay them. In that respect it is proposed, with reference to the neighbouring towns at least, that we shall follow their example : but while we do this, we must also endeavour to improve by their experience. And the following is the plan we beg to submit :—

1. That a Bank with a capital of £500,000 be established in Newcastle, with Branches at Durham, Sunderland, Shields, and any other place which may be hereafter determined upon.

2. That no individual shall be allowed to hold more stock than to the amount of two thousand pounds.

3. That the capital be subscribed as follows :—Two hundred thousand in Newcastle and neighbourhood ; one hundred thousand in Sunderland ; fifty thousand in Durham ; fifty thousand in Shields, and their respective neighbourhoods, and the other hundred thousand as may be hereafter determined upon.

4. That the Bank in Newcastle be governed by four Directors, three of them chosen by the Newcastle Stock-holders, and the fourth to be

their Chairman, and be chosen by the other three. One of these Directors to go out annually, and not for one year be eligible to be re-elected. That the Chairman be elected annually, and be eligible to be re-elected.

5. That the Branches be governed by three Directors, chosen by their respective Stockholders, and a Chairman chosen by the three Directors in the same manner as with the main branch in Newcastle.

6. That the Branches be under the general management and control of the Court of Directors in Newcastle, who shall receive daily or weekly accounts of their transactions.

7. That the Chairman of the Branches form with the Newcastle Directors a Committee of General Management, and come into Newcastle every month to examine the affairs of the establishment, and consult and decide with the Newcastle Directors all questions and rules of General Management, which it may be necessary from time to time to lay down.

8. That none but the Chairman, and the Newcastle Directors, have any inspection of the particular transactions of each Branch; but that a general meeting of the whole Directors shall be periodically held for the purpose of making laws, or may at any time be called to consult upon any given question, either with respect to the transactions of any Branch with

an individual, or upon any specific point of management which may be proposed to it, and its decision to control and bind the Committee of General Management with respect to that point ; and two Directors to have at any time the power of calling a general meeting.

9. That there also be a Governor and Deputy-Governor, the latter of whom to be chosen by the Committee of General Management, and the former either by the Directors at large, or the Stock-holders. The Governor to be principally an honorary appointment, and to be a member of one of the two houses of parliament, and the Deputy-Governor some gentleman resident in Newcastle, who has leisure and inclination to give his attention to the affairs of the Bank, and preside at the monthly meetings.

10. That the executive officers of the Establishments consist of a Cashier and Accountant, with a Secretary, if required ; and such other Clerks as are necessary for each Branch, and a Managing Director in Newcastle.

11. That the division into Branches extend only to the division of the capital and management, and not to the profits, which shall be divided equally.

This gives a general outline, and I need not go further. The first step that the Company will have to take must necessarily be to appoint

a Committee to procure all the laws and regulations of the Public Banks of England and Ireland, and the leading Public Banks of Scotland. They must examine into their comparative success, and the cause of it, and from their rules draw out such a constitution, as, adapted to the peculiarities of our local situation, shall be the best fitted to secure both the safest and most profitable management. In proposing this outline, my object is principally to suggest the enquiry, and not by any means to presume that a better plan may not be adopted. That the constitutions of some of the present Public Banks are not so good as they might be, and not suited to such a town as this, I am pretty well convinced; and as it is difficult to make a change after a constitution is once acted upon, it will be evidently proper to consider the subject well beforehand. The outline which I have given, I shall, however, take the liberty of illustrating by a few explanatory observations.

In the first place, the capital proposed will at once have the effect of giving the concern stability, and of securing the unlimited confidence necessary to be reposed in it by the public, in order to render it equally profitable and useful. In the next place, limiting the amount of stock held by each individual, will keep the concern in the hands of the public. It is very



usual with Private Bankers and other wealthy individuals, to buy largely of the Stock of the Public Banks in Scotland, which is a disadvantage to them, as the greater the number of persons interested in supporting such a concern, the better. There are two individuals who each hold upwards of a hundred thousand pounds of the British Linen Company's Stock, neither of whose accounts with it are so profitable, nor, in all probability, is their influence in its favour nearly so advantageous as the transactions and influence of a respectable tradesman, or merchant, would be, who was in a situation to hold £2000 Stock independent of the capital of his trade. One of them is, in fact, himself a Banker, and issues notes, so that he must be a rival, as far as his business extends, and not a friend to the Bank. By this means, it is deprived of at least a hundred interested supporters, which, by our plan, it would have, and the profit of the smaller Stock-holder is diminished in a corresponding degree. There is also another practical evil, of still greater importance, which would be avoided. The Private Bankers in Edinburgh who do not issue Notes, keep an account with one of the Public Banks, in the same manner as the London Bankers do with the Bank of England, and discount with it, or draw upon it for the cash they require. They have, generally, made it



their policy, to buy largely of the Stock of the Bank they do business with, so that by the amount of their stock, together with their private influence as Bankers, they might get themselves chosen Directors. By that means they not only gain an undue preference in their transactions with the Bank, but as it has been proved, have, sometimes, for years together, contrived to render the Bank totally subservient to the extension and profit of their own private business.

Where great Public Banks are established, there will always be trade to a certain extent for such Bankers. They draw upon London, act as Bill Brokers, charging a commission upon their discounts, &c. and when capital is scarce, by their superior credit and influence in obtaining discounts, contrive sometimes to do business to considerable extent. We may consequently expect that the same, in a greater or less degree, will be the case in this town, and as such Bankers here will have the same interest to prompt them as in Edinburgh, they may be expected to endeavour to take the same steps. But by limiting the amount of Stock held by each individual to £2,000, no monopoly can take place, and one Stock-holder cannot possess any advantage over another.

Such persons generally, no doubt, get possession of the Stock by giving the best price

for it ; and by thus limiting the competition, individual sellers will not get, at the moment, quite as much as it would otherwise bring. By a strict adherence, however, to the rule, the profit of the concern will be improved, and instead of a holder having to sell his Stock with a dividend of 10 per cent., it may leave a dividend of  $12\frac{1}{2}$ . Thus though he may not get so much for it when it comes into the market, as with a free competition, yet he will evidently get more for it than if, from the consequence of such competition, the dividends were  $2\frac{1}{2}$  per cent. less.

It may be said that £2000 stock is not a sum large enough to give any Directors a sufficient interest in the management. To this it may be answered, nor yet would three times the amount, if they felt no interest in the management independent of the profit of their stock. The Directors in general will be wealthy individuals, with whom that profit can be of little importance.

With respect to the division into Branches, there can be no doubt that by thus effectually embracing the business of the different towns wherein they are established, the profit of the concern will be materially increased, and that capital, which might be too large for Newcastle alone, become only proportioned to a plan so much more comprehensive. But there will

be also great advantages derived from it in the system of management which it affords.

There are two objects to be aimed at in planning the constitution of a Bank. First, its safety: and next, its success. And though safety is a natural consequence of success, yet there may be great safety where the success is but small. They are, in fact, partly opposed to each other. That constitution which would best secure the one might be very liable to diminish the other. In a multitude of Directors there would be safety, but the chances would not be so much in favour of success. It is commonly said, and with truth, "What is every body's business is nobody's;" and this in some degree would be the case with a multitude of Directors. The common routine of transactions would be done by the officers of the institution; but no able or energetic, and successful management would be attempted. The responsibility lies with the Directors at large. No individual director would consequently take any step of the least importance himself. Nothing would be done without a majority present, and too little interest would be felt by the majority for it ever to attend. Besides, when many people meet, they talk more than they act: and if they differ in opinion, are apt to do nothing, leaning always to the safe side. Little being therefore done, and always that little with superlative safety, the

business of the concern would be liable to flag, if not fall off altogether. It will sometimes happen, as with the Bank of England, where a considerable business is necessarily done, that with a number of Directors a good arrangement may be adopted, and the management go on tolerably well. But the Bank of England derives its business from its monopoly, in spite of its Directors, and not from its superior management. Four and twenty Directors could never successfully compete with the management of a smaller body. This is partly proved by its own experience. It does business upon the same principles as the Private Banks, yet notwithstanding its superior credit, it gets little or nothing to do, beyond the circulation of its notes, and keeping the accounts of government. On the contrary, were the Directors fewer, the interest they felt would be greater. The whole credit of the management would attach solely to them ; they would acquire a better knowledge of it, do it with more ease and pleasure, and give that spirit and energy to the direction by which the business of the concern would be extended, and its profits increased. There is also another disadvantage arising from too many Directors. Few people like their cash transactions to be known, and none, that they should come under the review and cognizance of their neighbours, who might sometimes *even* be their

rivals in trade. This will always be particularly the case with borrowers, who are as good customers, and as necessary to a bank, as lenders : and when there is a great number of Directors, people are apt to feel that privacy is almost out of the question. This, I dare say, is one of the principal causes which gives business to the Private Bankers in Edinburgh ; and it will always induce many *country gentlemen* (more particularly those with whom a few shillings per cent. is less an object) to do their business with Private Banks in preference, if they possess the requisite credit, or can give them the accommodation they require.

Now, by the plan proposed, we shall combine all the advantages of both public and private management, without the drawbacks of either.

For these reasons, the fewer the Directors the better : but there could not well be fewer than four ; and, indeed, perhaps no Bank could be safely trusted to the management of so small a number. By the Branches being under the control of the Newcastle Directors, however, while they will enjoy all the advantages of the most private management, they will have all the security of the most public. The same will be the case with the management at Newcastle : it will regularly come under the inspection and control of the Chairman of the Branch

Directors, and any thing wrong in the management will immediately be discovered, and corrected or exposed. By this means, no doubt, the transactions of individuals with the Bank will be reviewed by more than four Directors. They will, however, generally be strangers; and people have a much greater objection to be immediately under the cognizance of their neighbours, and those they are known to, in money matters, than they have to their affairs being reviewed by persons who do not know them, and who only stand in the relation towards them of A. to B.

A declaration, however, if not an oath publicly made, ought to be required from every Director, that he would never make the transactions of the Bank a subject of conversation to any but those concerned in the management; and from the Committee of General Management, that their individual communications to the Branch Directors, should embrace only points of general management, unless a general meeting is to be called, and any question to be discussed which shall involve the detail of any particular transactions. By this means the public might be continually *reminded and assured* that their transactions would have the greatest privacy possible, an assurance which there can be little doubt, would be of considerable benefit to the business of the Bank.

Another great advantage of this plan is the superior activity which the comparing and inspecting of each others management will naturally produce. While the Directors at Newcastle will require a good account of the management of the Branches, they will naturally be anxious to give as good an account to the Branch Directors, in return. Thus by being poised against each other, an emulation will be excited, which, by keeping the interest and attention of all parties continually alive, must prove of incalculable service in promoting the interest of the establishment: for a falling off in the time, trouble, and attention given by those who are entrusted with the management, is the easily besetting sin of the Directors of all public concerns.

If the public could be equally assured of the goodness of the management, it would be better that the Directors once chosen should never be changed. The secrets of the Bank ought to be kept in as small a compass as possible.

The management of a Bank also requires a practical knowledge, which, of so great a business, must take some time to acquire. Of this the Scotch are aware, and though some of the Directors go out every year, they generally re-elect such as have been Directors before, so that the same set of persons, whom experience



has rendered the most fit, are continually in the management.

In order, therefore, not to have more changes than necessary, and to introduce no strange faces that can be dispensed with, it is proposed that but one Director shall go out each year by rotation, and that the order of rotation be not imperative. If to retain a Director, whose usefulness is such, that his brother Directors think he ought not to retire, or if to permit one to go out who may have found that he cannot give the attention required, the Directors choose to alter it, so much the better. In so small a number, it would neither be desirable to lose a good Director, nor to retain a bad one ; and of their respective qualifications and usefulness, the Directors will themselves be the best judges. It will also generally happen, that there is some one individual who has more time, takes more pleasure and interest in, and gives more attention to, the management than the rest, and the object in giving the Directors the choice of the fourth member themselves is, that they may choose this person for their Chairman. He will always have the most knowledge of the transactions of his particular branch, and will be the fittest to give any explanations respecting it, at the monthly meetings of the Committee of General Management, and will have the most



tact and fitness for that inspection and judgment which he will be called upon to exercise on the transactions of the other branches, that will come under his review.

The monthly meetings of the Chairmen of the Branches, with the Newcastle Directors, being for the purpose of scrutinizing and controlling each others management, it is possible that differences of opinion may sometimes arise. In order, however, to prevent such differences from ever producing any disunion (which varieties of opinion, when people are earnest in a pursuit, have been known to cause) it is proposed, that the Deputy Governor who presides at these meetings, shall have nothing to do with the particular management of any Branch. Being chosen by the Committee, whose respect and confidence he will in consequence naturally enjoy, he will possess sufficient influence to prevent any such event from ever happening. It is likely, however, from the character and respectability of the parties, that a misunderstanding is merely a possible, but not at all a probable event.

The Governor having merely an honorary station, should be chosen in a manner calculated to convey the greatest compliment, and should always be a member of one of the Houses of Parliament, both in order that he may be a man of undoubted rank, and in order to secure

a parliamentary interest and co-operation in promoting any measure, or procuring any act which may hereafter be wanted.

The superior power of control possessed by the general court of Directors, does not involve its interference in the details of the concern, and will not, consequently, in the least degree, embarrass its operations, which might be the case if it were called upon to take a practical management. It will merely be a superior court of appeal, to which reference may be made upon any particular question or point, by the Committee of General Management, or any two of its members. Its judgment and interference will be merely occasional, and never exercised without being specially called for, which it is probable will rarely be the case. The existence of the power may be useful, however, though never exercised.

Independent of these different checks, the Managing Director ought to make periodical visits, more particularly at the commencement of the concern, to aid, with his advice and assistance, the Directors of the Branches. By thus diffusing his practical knowledge into every department, a general uniformity and harmony in the direction of affairs, will subsist throughout, which will render the positive application

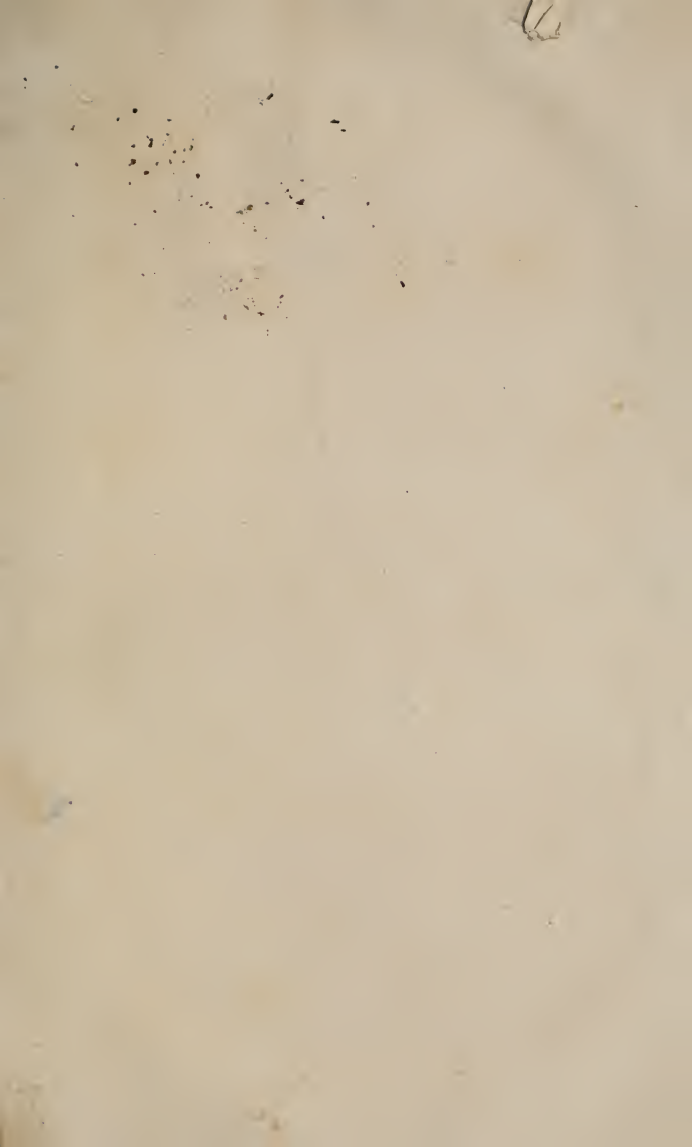
of any one of the checks an event rarely called for.

By this plan, therefore, I should imagine, that there would be every probability of the establishment being conducted both with safety and success. The whole management, in a short time, would become a very well understood routine. Any appeals would merely take place on particular occasions, by the Directors of the Branches requiring the additional authority of the Committee of General Management; or by the Committee of General Management, on any important point, requiring the additional authority of the general Court of Directors, to relieve themselves from responsibility.

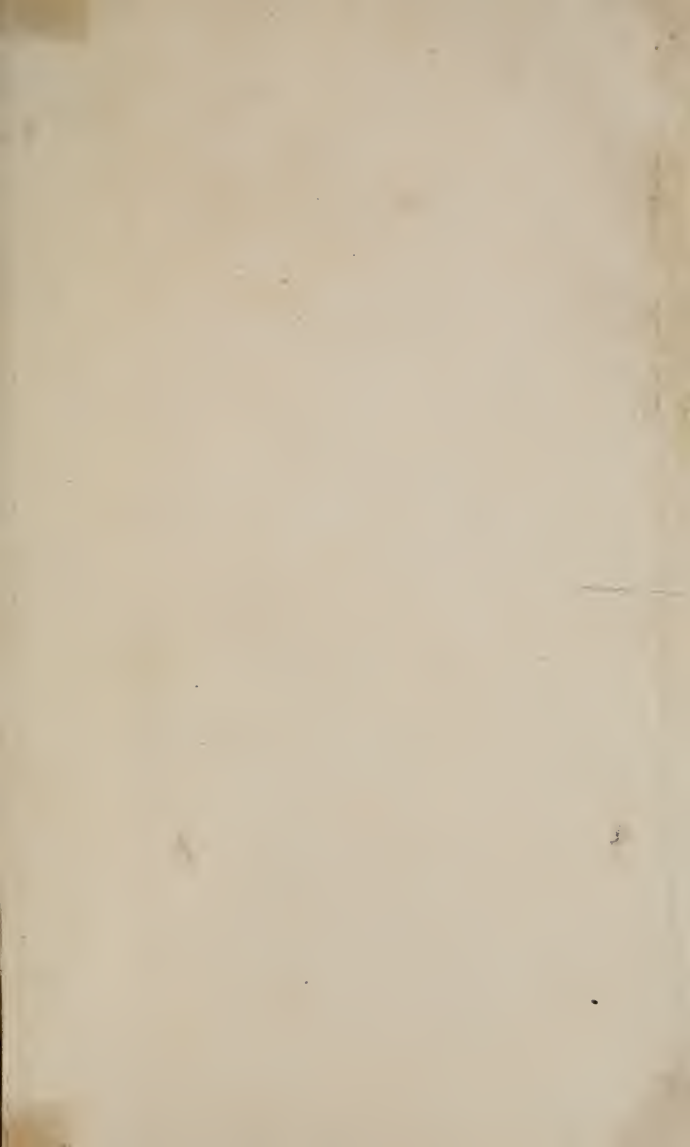
Branches may also be established at Berwick, Carlisle, Stockton, &c. upon the same principles, but the distance would be too great to require the monthly attendance of their Chairmen. If they came once or twice a year, to ascertain, for the benefit of their constituents, the general state of the concern, it would be sufficient. In any large town, however, where an Agent was appointed, and any considerable business done, it would be better to have a Board of Directors. No business could be done to any extent, without a discretionary power exercised upon the spot; and the experience of the Scotch Banks has proved, that it is not

safe to entrust such a power to an Agent. With these few observations, we will leave the plan to the consideration of the public.

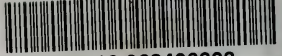
☞ In page 18, I have stated that no man is ever chosen Director of a joint stock company, who is not fit for it; I find, however, that instead of *is*, it would have been more correct to have said *ought to be*.







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